

BUILDING AN EFFECTIVE SIU: KEY DYNAMICS



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The Savings and Investments Union – Mobilising capital to finance Europe's future

While progress has been made since the CMU initiative was launched ten years ago, EU capital markets remain fragmented. European citizens and businesses are not able to fully benefit from deep, competitive, efficient and reliable sources of funding and investment. The current geopolitical upheavals pose the risk of even more fragmentation, even within the EU, but they may also act as a catalyst to set bold measures to create a genuine SIU. Strong and stable open financial markets are a key factor to foster both economic growth and employment. Financial market policy can contribute to overarching political goals such as strengthening Europe's position in the World as a prospering stronghold of liberal democracy and security. To satisfy financing needs to invest in our future and that of coming generations we need both, a strong banking sector and strong capital markets.

Channelling funds from savings accounts into European businesses requires first and foremost trust in the European real economy and the financial sector. It is key that citizens have equal and fair access to financial services and to the capital markets. To this end, a fair regulatory environment, transparency and powerful, independent supervision are essential factors. Hence we should not sacrifice the goals of the RIS for the sake of simplistic simplification but ensure that citizens receive high quality, instead of high quantity, information and unbiased advice to acquire value for money products. On the other hand, a certain degree of restraint may be advisable when it comes to regulators designing entire products. The PEPP is, by definition, a long-term savings product with a European label. We should learn our lessons from its failure instead of running the risk of making the same mistakes twice by creating just another European savings product from scratch.

Financial literacy is also key to secure participation in the capital markets. Citizens need to understand capital markets, their potential in relation to investing for the future. Likewise, citizens should be able to identify risks and possible frauds and scams.

In order to fortify the bridge between the banking sector and capital markets and to increase lending capacities of banks, great expectations are set in the growth of securitisation in Europe. We should, however, be careful deriving overly optimistic expectations from drawing comparisons with other jurisdictions. In many EU member states mortgage loans are refinanced using alternative instruments, especially

covered bonds, which are proven high-quality instruments. Securitisation is also a relatively expensive refinancing tool. Nevertheless, carefully balanced regulatory amendments could support unlocking the potential of securitisation. Due diligence requirements should be revised by making them more principle based, proportionate and less complex. Transparency requirements should also be reviewed with a view to eliminating redundancies, aligning terminology and simplifying reporting. With regard to capital and liquidity requirements, we should, however, bear in mind that changes might have implications on financial stability. The ongoing discussion on establishing a European securitisation platform is particularly complex. While a platform could improve standardisation, reduce transaction costs and barriers to market entry, more intrusive measures such as guarantees come along with difficult fiscal and state aid questions.

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An even more contentious issue is supervision. While it is true that supervision shapes markets, reducing the problem to the question of centralisation of capital markets supervision would be overly simplistic. Many problems originate from unclear rules and dilatory compromises at Level 1. Tackling this issue not only requires improving the quality of legislation right from the start of its process but also the willingness of the co-legislators to compromise and agree on clear-cut solutions. Where feasible, new mandates for the ESAs to publish technical standards could help reducing inconsistent application of rules. The ESAs should also make use of their vast array of tools to push harmonisation. On top of that, further market integration will justify more centralised supervision. Yet, an evolutionary process tailored to the different degrees of market integration and different types and size of market participants seems more appropriate to avoid unintended side effects of disruptive changes. Proximity between markets, market participants and supervisors as well as proportionality are elements that should not be neglected when assessing overall efficiency.



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French authorities propositions towards EU capital markets growth and integration

The need to make Europe both more competitive and able to finance on its own the many challenges ahead has only been made more necessary by recent developments. We must implement concrete actions at the European level across three key areas that have been identified as crucial by high-level reports on the subject: enhancing the capacity of European banks to support SMEs' financing needs; alleviating the regulatory obstacles to the integration of Europe's capital markets and encouraging retail investors to direct their savings towards European equity investment.

To achieve these ambitious objectives swiftly, focusing on a first set of key transformative actions is necessary. The upcoming proposals from the European Commission should carry this ambition in a bold and decisive manner, by covering all of the following key actions.

First, relaunching the EU securitisation market will be key to increasing credit availability and diversifying risk. While maintaining the strong safeguards introduced after 2008, a full review of the prudential framework is needed – both for insurers and banks –, including adjustments to capital charges and liquidity requirements that unduly penalise investors—with room for targeted deviations from Basel where justified, in line with choices made by other major jurisdictions. Simplifying due diligence and disclosure requirements would also be essential to lower barriers to entry while ensuring investor protection. Building a common European securitisation platform could also bring benefits: improving transparency, reducing structuring costs, harmonising practices, fostering market integration and attracting a wider range of participants across the EU.

A more integrated European supervisory framework would also be essential to foster integration, competitiveness and simplification, while strengthening financial stability and supervisory credibility. Direct ESMA supervision of systemic and cross-border CCPs, CSDs, trading venues, major asset managers and pan-European crypto-asset service providers would support market integration and lower compliance costs, creating the first step towards single EU supervision. Where full centralisation is not immediately feasible, enhanced supervisory colleges mechanisms with a reinforced role granted to ESMA could be set up, facilitating a gradual shift towards integration.

This strategic priority was rightfully stressed in the European Commission's Competitiveness Compass, which calls for a much more unified approach of supervisory practices. Regarding the way forward which we should pursue, a public consultation could be a very interesting first step, but should lead to a Commission proposal, which would be useful to get by the end of the year.

We must also channel better the abundant European retail savings into equity funding for European companies. As tax parameters and distribution channels remain specific to each Member State, we support to design first a European label that would foster the development of long-term saving accounts in every interested Member State, both for existing or newly created frameworks. The criteria for this label could include a long-term horizon, the absence of capital guarantee, the benefit from a nationally-defined favorable tax treatment, a minimum investment amount in European assets. Such savings accounts could offer retail investors an attractive and trusted framework to engage in capital markets.

Focusing on a first set of key transformative actions is necessary.

We are already moving forward on this last pillar, thanks to the "Competitiveness Lab" approach proposed by Spain, offering all voluntary Member States a dedicated dialogue instance aimed at delivering concrete reforms in a coordinated manner. We are currently starting the work in this framework, with the aim to define the label's criteria and governance by this summer, for a concrete implementation before the end of the year.

Alongside these structural reforms, we must ensure newly-mobilised financing supports Europe's most innovative companies. This requires a European strategy to improve scale-up financing, particularly in Member States with smaller capital markets. Facilitating listings for growth-stage companies and strengthening a genuine European venture capital ecosystem is key — building on existing roadmaps like the European Tech Champions Initiative and its second phase, as well as drawing lessons from case studies such as the UK's work on private share trading platforms.



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From today to tomorrow: Evolving Europe's financial market infrastructure

The sense of urgency regarding Europe's competitiveness and the development of the Savings and Investments Union (SIU) must now be turned into tangible action.

Addressing the fragmentation of the market infrastructures landscape is rightly an area of focus. When it comes to Central Securities Depositories (CSDs) and the post-trading sector, it is clear that improvements are needed to reduce complexity and enhance efficiencies and economies of scale.

At the same time, this objective needs to be balanced with the realities of the EU. Market participants have to navigate 27 legal and tax frameworks, varying market practices, products and distribution models, in addition to the national sovereignty policies of Member States. These divergences have made integration particularly challenging in the equity markets.

In the absence of full single market harmonisation, the focus should be on practical steps, implementable in the near term and building on the progress that has been made and effective solutions that exist today.

An optimal European market structure should be one that provides seamless connectivity across the single market while catering to the local ecosystems in Member States. Strong international connectivity is also important to support the EU's attractiveness as an investment destination.

EU authorities and market participants should focus on a set of conditions to advance this vision, including:

- **Fostering further sector integration** while maintaining healthy market competition. In the CSD sector, three pan-European groups account for 96% of EU CSD settlement activity. Facilitating further intra-group synergies would enable these operators to enhance efficiencies and economies of scale for the benefit of the wider market.
- **Optimising the interoperability and connectivity of settlement infrastructures** in line with market needs. Large pan-European CSDs have an important role to play in providing this connectivity as they already do in fixed income markets and collateral management.
- **Promoting further regulatory convergence and the harmonisation of market practices**, exploring actions at the EU and national levels to facilitate this process.

Building the infrastructures of tomorrow and a vibrant digital assets ecosystem

The possibilities offered by technology should be a key consideration in designing the markets of tomorrow.

Tokenization, digital assets and currencies represent a unique opportunity to address some of the structural inefficiencies of traditional assets and foster a more integrated European ecosystem. DTL could represent the next structural change to financial markets. For this promise to materialise, the broad market ecosystem needs to be able to unlock significant benefits and efficiency gains, while preserving financial stability and safety.

With market participants continuing to explore applications of this technology, the challenge today is the risk of an increasingly fragmented landscape with the multiplication of disparate DLT platforms.

An optimal market structure should provide seamless connectivity across the single market and strong access to global markets.

The promotion of standardisation and interoperability is therefore a priority task. Leading FMIs have been working to advance this, for example through the publication of the Digital Asset Securities Control Principles in 2024, a framework that seeks to provide industry-wide foundations to develop the ecosystem and build investor trust.

Public sector efforts and private sector initiatives must remain complementary to enable a strong digital assets ecosystem to develop. The recent announcement by the Governing Council of the European Central Bank (ECB) to expand its initiative to settle transactions recorded on DLT in central bank money is a significant step in this journey. A collaborative and coordinated approach will be essential as this and other workstreams are taken forward.

We are in an important phase of development for the European FMI sector, whether looking at the current traditional systems or the digital infrastructures of tomorrow. FMIs will need to collaborate with all stakeholders in supporting evolutions that drive innovation, safety and efficiency.



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Boosting the EU economy: financial intermediation and citizen investment

Europe is entering a new geo-political paradigm in 2025 and the ability of the European Union (EU) to adapt and change its markets will be critical to the prosperity of the EU in the coming decades. In the Mario Draghi report ‘The future of European competitiveness’ last year, it was highlighted that Europe is lagging in competitiveness. Addressing this critical issue, the European Commission’s President Ursula von der Leyen, introduced the Competitiveness Compass. The challenges have been well documented and now is the time to accelerate solutions. The EU’s economic competitiveness hinges significantly on the ability of innovative startups and scaleups to access capital.

What can we do?

1. To tackle these challenges, building the EU’s risk capital base is key, and it involves unlocking long-term risk capital from pension funds and retail investors. Boosting EU capital market investments requires incentivizing pension funds to invest in equity, encouraging retail participation through investment savings accounts with favorable and, crucially, simple tax treatment, simplifying market access, advancing digitalization, and enhancing financial literacy.
2. European corporates must have simple, and cost-efficient access to pools of risk capital. Streamlining legal and regulatory frameworks is critical. Supporting European companies necessitates harmonizing EU legislation by simplifying complex reporting obligations and aligning with private sector conditions. Over complex reporting regulations add to companies cost base and disincentivizing them to remain in Europe. As we have seen in the Nordic markets, showcasing the best European companies will in turn attract offshore investors, however the EU must make it easy and cost-effective for all investors to hold EU securities.
3. Simplifying and reducing costs for cross-border investments in the fragmented EU capital markets is essential. Promoting competition, innovation and liquidity on Exchanges and MTF platforms will address the fragmentation challenges posed by extensive bilateral over the counter (OTC) trading and the damage this does to Primary Exchanges.
4. Harmonizing EU post-trade platforms and links is key to reducing barriers, enhancing capital access, and lowering investment costs.

Retail investment is a cornerstone of success.

EU citizens stand to gain significantly from investing in capital markets, as they can achieve higher returns on their savings while contributing to job creation and growth. Retail investors should be encouraged to co-invest alongside public entities in projects aligned with EU priorities, such as driving innovation, green and digital transitions, and defense.

The engagement of EU citizens in capital markets is crucial in driving the economic growth and competitiveness of the Union. The Nordic and Baltic regions have long been celebrated for their innovative economies, largely due to fostering a culture that values and enables citizen investment in the markets and democratizes wealth creation. This approach has been integral to their thriving innovation ecosystems. Take Sweden, for instance. The country actively empowers and incentivizes its citizens to take charge of their financial futures by investing in equities. As a result, Swedish households hold an impressive average of 36% of their investments in equities, the highest percentage in Europe. This widespread stock market participation has not only bolstered individual wealth but also fueled a robust pipeline of initial public offerings (IPOs) on the Stockholm exchange, starting at an earlier stage in the growth journey than in many other countries, positioning Swedish companies among the most innovative globally. The stock markets can play a bigger role in bridging the scale-up gap.

Building the EU’s risk capital base is key, it involves unlocking long-term risk capital.

Moreover, governments across the Nordic and Baltic regions have strategically leveraged their countries’ assets to ensure long-term benefits for their citizens. A particularly noteworthy aspect of this model is the establishment of sovereign wealth funds and the modernization of pension systems. These initiatives have secured retirement benefits for citizens while ensuring that wealth creation remains largely within the populace. Simultaneously, they enable the deployment of capital across the private sector, driving sustained economic growth.